

BY THE U.S. GENERAL ACCOUNTING OFFICE  
**Report To The Chairwoman, Subcommittee On  
Government Activities And Transportation  
Committee On Government Operations  
House Of Representatives**

*no no's*

## Problems With GSA's Management Of Lease Renewal Options

GAO identified seven cases during a 4-year period where the General Services Administration missed exercising lease options and another case, now in litigation, where the lessor contends GSA missed exercising the option. These cases could result in additional costs for higher rent in excess of \$30 million. The problem was caused by

- erroneous data and a program deficiency in GSA's information system,
- human error and/or carelessness, and
- nonstandard procedures.

GSA officials have made a concerted effort to minimize recurrence of the problem. If GSA continues to devote sufficient management attention to lease renewals and implements the recent recommendations of its Inspector General, GAO believes that the chances of missing future lease renewal options will be reduced.



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NATIONAL SECURITY AND  
INTERNATIONAL AFFAIRS DIVISION

B-211466

The Honorable Cardiss R. Collins  
Chairwoman, Subcommittee on  
Government Activities and  
Transportation  
Committee on Government Operations  
House of Representatives

Dear Madam Chairwoman:

By letter of September 16, 1982, the former Subcommittee Chairman asked us to investigate the continued problems the General Services Administration (GSA) was experiencing with missing lease renewal options. We were asked to (1) identify lease options that GSA had missed in the last 4 years, including additional costs for higher rent, (2) evaluate the adequacy of GSA's corrective actions, and (3) determine the causes of the problem.

A lease renewal option gives the Government the right to continue tenancy for a specified term and rental at the expiration of the initial lease period. Before lease expiration, the Government is required to give the lessor written notice within a specified time period if it intends to exercise the option (renew the lease). At the time of lease renewal, the market rental rate is often more costly than the option rate. Therefore, it is generally in the Government's interest to exercise the lease option and obtain the lower rent rate when it has a continued need for the space.

We made our review at the GSA Central Office and at four of its regional offices--National Capital, Philadelphia, Fort Worth, and San Francisco. We reviewed active and terminated lease files and related reports and documents and talked with Central Office and regional officials concerning the problem of missed lease options and corrective action taken or planned.

Details on the results of our review of the issues in the Subcommittee's letter and other matters are included in appendix I and are summarized below. Also, as requested, we are including in appendix IV a bibliography of GAO reports containing recommendations on lease management problems.

ACTUAL AND POTENTIAL  
MISSED OPTIONS IDENTIFIED

We identified, through discussions with GSA officials and a review of agency reports and records, seven cases where GSA missed exercising lease options and another case, now in litigation, where the lessor contends GSA missed exercising the option. These cases occurred in the past 4 years in three of the four regional offices visited and could result in additional costs for higher rent in excess of \$30 million over the remaining term of the renewal options. In addition, we found in the National Capital and Philadelphia regional offices six errors in the GSA Public Buildings Service Information System (PBS/IS) that could result in future missed options if not corrected. Other errors in the lease files and the information system were also identified, but they would not result in missing any renewal options. (See app. I, p. 3.)

GSA'S CORRECTIVE ACTIONS

GSA officials have made a concerted effort to minimize the recurrence of missing renewal options. Each regional office has examined (1) lease files to identify and correct any ambiguous data and (2) PBS/IS records to insure consistency with lease renewal provisions in the original lease documents. GSA officials also provided the regions specific instructions for managing the more complex leases, such as multiunit leases which have contributed to the missed option problem in the past.

However, GSA leasing personnel are not confident about the reliability of PBS/IS data. Each regional office visited uses a manual system to either supplement the PBS/IS or to provide an added control for the data already in the system. GSA officials recognize that a problem exists with the current automated system and are developing an improved automated tracking system for leasing actions. However, continued management attention to the need to properly document each leasing action is necessary if future missed options are to be avoided. Since there is no way to program a totally fail-safe system, the possibility always exists that human error can cause missed options. (See app. I, p. 8.)

In March 1983, the GSA Office of the Inspector General made a series of recommendations to improve the management of lease renewal options. <sup>1/</sup> In summary, the Inspector General recommended development of standard procedures for nationwide application for managing and controlling lease renewal options and periodic reviews to insure that the regions implement the procedures. (See app. I, p. 11.)

CAUSES OF THE MISSED OPTION PROBLEM

Our review, in addition to the work done by GSA's Office of the Inspector General, found the causes for this problem to be

- erroneous data in the PBS/IS which resulted in inaccurate or incomplete warning notices provided to the leasing specialists responsible for issuing timely renewal notices to lessors;
- human error and/or carelessness during the lease file preparation and subsequent reviews of the lease information;
- a programming deficiency in the PBS/IS that allowed only one expiration date and renewal option date to be entered in the system for each lease even though a lease may have more than one block of space with various expiration and option dates (multiunit leases); and
- a lack of standard procedures for regional office use for controlling and managing all lease data, especially lease renewal provisions. (See app. I, pp. 4 and 8.)

CONCLUSIONS

GSA officials have taken steps to minimize the recurrence of missing lease renewal options. However, the management of lease renewal data continues to be a problem. The increased management attention, as evidenced by the individual lease file reviews and the issuance of new procedures, has probably produced

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<sup>1/</sup>General Services Administration, Office of the Inspector General, "Review of Controls over Lease Renewal Dates" (Mar. 28, 1983).

the most accurate PBS/IS renewal option data base to date. To insure future data base accuracy, continued management emphasis on properly documenting each leasing action is necessary.

The lack of confidence on the part of GSA leasing specialists in the information system has resulted in each regional office tailoring its procedures to conform with PBS/IS capabilities. GSA officials recognize that problems exist with the current system and are trying to correct them. However, until GSA issues standardized procedures for nationwide application for managing and controlling lease data, each regional office will continue to use and possibly rely on locally developed procedures and manual systems which could further degrade the reliability of the PBS/IS.

We believe that if GSA continues to devote sufficient management attention to the lease renewal option problem and implements the Inspector General's recommendations, the chances of missing future lease renewal options will be reduced. Accordingly, we are making no recommendations at this time.

AGENCY COMMENTS

As agreed, we provided GSA with a draft of this report and asked for oral comments. On April 21, 1983, we met with GSA PBS representatives, and they agreed with the report contents. They added, however, that the potential missed option we had identified for one of the leases had been properly exercised after our review. We have recognized this in our final report.

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We are sending copies of this report to the Administrator of General Services. Unless you publicly announce its contents earlier, no further distribution will be made until 30 days from the date of the report.

Sincerely yours,

*for*   
Frank C. Conahan  
Director

PROBLEMS WITH GSA'S MANAGEMENT  
OF LEASE RENEWAL OPTIONS

BACKGROUND

As of March 1983, GSA managed about 5,200 leases with an annual rental payment of about \$700 million. Of these, about 1,100 leases, with annual rental payments of about \$201 million, have renewal options. (See app. II.)

A lease renewal option gives the Government the right to continue tenancy for a specified term and rental at the expiration of the current lease period. Before a lease expires, the Government must provide the lessor written notice, within a specified time period, if it intends to exercise the option to renew the lease. At the time of lease renewal, the market rental rate is often more costly than the option rate. Therefore, it is generally in the Government's interest to exercise the lease option and obtain the lower rental rate when it has a continued need for the space.

The PBS/IS is the automated system which gives management and real estate specialists information on real estate matters, including lease terms and renewal option data. Although GSA officials disagree as to the usefulness of the PBS/IS, it carries out many critical functions, such as providing warning notices to GSA officials of upcoming lease expirations and the final dates necessary to issue renewal notices to lessors.

The management of renewal options has been a continuous problem for GSA officials. In 1978, we reported <sup>1/</sup> on two missed options that would result in additional costs to the Government of about \$422,000 over a 5-year renewal period. We stated that GSA's leasing procedures were silent on controls to be established by the regions for administering lease options. At that time we recommended that GSA evaluate the adequacy of controls established by the regions to insure that lease options are considered for renewal.

During the past year, the news media publicized GSA's costly failure in San Francisco to renew a favorable lease option. Other missed options were also identified in San Francisco as well as in areas under the jurisdiction of other GSA regional offices. The failure to execute the renewal options was, in part, attributed by GSA officials to information system problems.

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<sup>1/</sup>Letter to the Administrator of General Services  
(LCD-79-301, Nov. 17, 1978).

OBJECTIVE, SCOPE, AND METHODOLOGY

By letter dated September 16, 1982 (see app. V), the former Subcommittee Chairman asked us to investigate the publicized and continued problems in GSA's management of lease renewal options.

Our objectives were to (1) identify lease options that GSA had missed in the past 4 years, including additional costs for higher rent, (2) evaluate the adequacy of GSA's corrective actions, and (3) determine the causes of the missed option problem.

We made our review at the GSA Central Office, Washington, D.C., and at 4 of the GSA's 11 regional offices--Philadelphia, Fort Worth, San Francisco, and the National Capital Region. We reviewed active and terminated lease files, related records, and GSA Inspector General reports to identify lease options that GSA may have missed during the past 4 years. Of the 252 leases reviewed, we judgmentally selected 220 active leases with annual rental payments exceeding \$10,000 and compared information in the lease file with the "terms and renewal" data in the PBS/IS. We also reviewed 32 terminated leases to determine if any renewal options, if present, had been properly executed. In addition, we talked with GSA officials about the problem and corrective actions planned or taken. We performed our work in accordance with generally accepted Government audit standards.

REVIEW OF LEASE FILES

Our review of the 252 lease files did not disclose any missed options. However, through discussions with GSA officials and a review of agency reports and records, we identified seven missed options that had occurred during the past 4 years in three of the four regions visited and one additional case, now in litigation, where the lessor contends that GSA missed exercising the option.

Our comparison of the information in the 220 active lease files with the data entered in the PBS/IS identified 30 errors, of which 6 had potential to cause future missed options. (See p. 3.) Our file review was performed after each regional office had completed a 100-percent lease file review and had informed Central Office PBS officials that all lease renewal option data

was accurately shown in the PBS/IS. The 24 errors, which did not have potential to cause future missed options, related to inconsistencies in the lease file and entry errors in the information system, such as erroneous expiration dates or the wrong number of renewal options remaining. We found no errors in the 32 terminated leased files. The following table summarizes the results of our file review.

Summary of GAO's Lease  
File Review by Region

GSA region	Total active leases	Leases reviewed			Errors identified		
		Active	Terminated	Total	Potential missed option	Data	Total
National Capital	331	48	16	64	5	3	8
Philadelphia	433	74	9	83	1	2	3
Fort Worth	635	70	7	77	-	8	8
San Francisco	<u>654</u>	<u>28</u>	<u>-</u>	<u>28</u>	<u>-</u>	<u>11</u>	<u>11</u>
Total	<u>2,053</u>	<u>220</u>	<u>32</u>	<u>252</u>	<u>6</u>	<u>24</u>	<u>30</u>

Missed options

Although our file review did not disclose any missed options, GSA officials acknowledged that seven missed options had occurred in the past 4 years in three of four regions visited and that there was one additional case, now in litigation, where the lessor contends GSA missed exercising the option. Of the eight cases, five occurred in the San Francisco Region, two occurred in the National Capital Region, and one occurred in the Fort Worth Region. The Government could incur additional costs of \$30 million to \$40 million in higher rent for these eight cases. One missed option for the 211 Main Street building in San Francisco and the case now in litigation for the Landow Building in Bethesda, Maryland, could result in excess costs to the Government of \$30 million or more over the term of the renewal options. Additional costs incurred by the Government for each of the remaining six leases are \$60,000 or less.

The following chart summarizes the eight cases by location and lease number and provides additional information on the additional costs to the Government and causes of the missed options. The two major cases are analyzed in detail in appendix III.

Lease Renewal Options Missed  
Between 1978 and 1982

<u>Location/lease number</u>	<u>Additional costs</u>	<u>Cause of missing the option</u>
211 Main Street San Francisco, California GS-09B-6600	<u>\$24 million to \$33 million</u> over the <u>10-year</u> renewal period (note a)	A multiunit lease with different expiration dates. The earliest expiration date was not entered in the PBS/IS, and the advance warning or renewal notices were not issued.  PBS/IS is programmed to accept only one expiration date and one renewal option date for each lease.  Human error and carelessness during various reviews of PBS/IS data.
550 Kearny Street San Francisco, California GS-09B-74042	<u>\$39,000</u> over the <u>2-year</u> renewal period	Errors and omissions in the lease digest resulted in no advance warning notice for the renewal option.
442 East 7th Street Tucson, Arizona GS-09B-4630	<u>\$30,000</u> over the <u>5-year</u> renewal period	Omission in lease digest.  Administrative oversight.
586 North First Street San Jose, California GS-09B-79799	<u>\$6,200</u> over the <u>2-year</u> renewal period	PBS/IS showed no renewal option and the wrong lease expiration date.

<u>Location/lease number</u>	<u>Additional costs</u>	<u>Cause of missing the option</u>
1818 Gilbreth Road Burlingame, California GS-09B-60055	None	PBS/IS had no renewal notice data. Incorrect expiration date had been entered in PBS/IS.
400 T Street NE. Washington, DC. GS-03B-6116	<u>\$60,000</u> over five 1-year renewal periods	Untimely notice of renewal provided lessor.
South Main and Highway 126 Cuba, New Mexico GS-07B-7667	<u>\$40,000</u> over the 5-year renewal period	Transfer of personnel resulted in management oversight.

Lease option in disputeIssue in dispute

Landow Building Bethesda, Maryland GS-03B-6114 (note b)	<u>\$6 million to \$9 million</u> over the 10-year renewal period (note a)	Conflicting information in lease file pertaining to number of days required before lease expiration for issuing renewal notice to lessor.
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a/GSA auditors' estimate.

b/Lease currently in litigation because the lessor contends that the Government did not issue renewal notice in accordance with the time frame set forth in the lessor's offer.

Potential missed options

Options could be missed in the future if renewal data entered in the PBS/IS is not in agreement with the information in the lease files. Such an inconsistency, if not detected, could cause the Government to miss an option if a timely renewal notice is not issued to a lessor. Of the six potential missed options identified, five were in the National Capital Region and one was in Philadelphia. Both regional offices previously conducted a 100-percent file update and reported to Central Office PBS officials that some of the PBS/IS data was incorrect but not to the extent that GSA would miss the issuance of any renewal notices.

The one potential missed option in Philadelphia involves a multiunit lease whereby one building contains eight units of space with three different expiration dates. Neither the PBS/IS nor the manual list kept by the Leasing Branch reflected a 3-year renewal option for four of the eight units. The omission was attributed by the Leasing Branch Chief to human error.

Concerning the five potential missed options in the National Capital Region, information on one option was not contained in the PBS/IS or in the manual list maintained by the Leasing Branch and information on another option was on the manual list but not in the PBS/IS. However, the manual system contained the wrong date for issuing the renewal notice. Two options were not in the PBS/IS but were identified on the manual list; the remaining option was not shown on either the PBS/IS or on the manual list, and the lease document itself contained ambiguous language with respect to the option. National Capital regional officials stated that two of the errors identified were due to an oversight on the part of the leasing specialists. However, leasing officials were aware of the remaining three options identified on the manual listing but not on the PBS/IS.

The following list identifies the locations, lease numbers, and reasons why the six options might be missed.

<u>Location/lease number</u>	<u>Reason for potential missed option</u>
38 Courtright Avenue Wilkes Barre, Pennsylvania LPA-90235	Neither the PBS/IS nor manual list included the one 3-year renewal option remaining on units 1 through 4.
Beltway View Rockville, Maryland LMD-20056	Basic lease provides for one 5-year renewal option. PBS/IS and manual system show no renewal option.
621 North Payne Alexandria, Virginia LVA-80089 (note a)	PBS/IS shows one 4-year renewal option but does not indicate the number of days required to issue renewal notice to lessor.  Warning report of expiring leases identifies lease as needing action but does not specify renewal date.

<u>Location/lease number</u>	<u>Reason for potential missed option</u>
Hartwick Building College Park, Maryland LMD-10078	Manual system identifies lease as requiring action 90 days before expiration in order to exercise renewal rights. Lease file stipulates 120 days' notice required to renew.  Regional officials stated that manual system contained a typographical error.
Ballston Center Tower #3 Arlington, Virginia LVA-05734	Number of days required to issue renewal notice is 60 in PBS/IS and 90 in lease file. Manual system has correct renewal date.  Number of days required to issue renewal notice is 90 in lessor's offer which is made part of the lease; PBS/IS shows only 30 days. Manual system has correct renewal date.
4801 Stamp Road Temple Hills, Maryland LMD-00031	Ambiguous lease language could result in the Government not exercising a renewal option in 1985.  PBS/IS shows lease as a 5-year firm term with no renewal options.  The basic lease deleted the renewal options paragraph but incorporates lessor's offer.  --Solicitation requested 5-year firm term with options.  --Record of negotiations states lessor offered 5-year firm term with renewal options.  --No Government record of why lease option was not incorporated in the lease.

a/GSA officials informed us that after our visit the option for this lease was properly exercised.

Regional officials have taken the necessary action to correct the above errors. In addition, the National Capital Region initiated another 100-percent file update to insure the accuracy of the renewal option information in the PBS/IS.

ACTIONS TAKEN BY GSA TO AVOID THE  
RECURRENCE OF MISSING A RENEWAL OPTION

Since July 1982, GSA officials have made a concerted effort to avoid the recurrence of missing any renewal options. The GSA Office of the Inspector General performed two audits of the missed options in the National Capital and San Francisco regional offices. The reports <sup>2/</sup> resulting from these investigations identify the problems and causes of missing an option as:

- Erroneous data in the PBS/IS which resulted in inaccurate or incomplete warning notices provided to the leasing specialists.
- Human error and/or carelessness during the lease file preparation and subsequent reviews of the lease information.
- A programming deficiency in the PBS/IS which allows only one expiration date and renewal option date to be entered in the system for each lease even though multiunit leases have more than one block of space with various expiration dates.

Both audit reports included recommendations to the Commissioner, PBS, and to regional office officials to correct the problems. In part, these recommendations state that PBS and regional office officials should:

- Require that pertinent data on multiple block leases be added to the remarks section of the lease digest pending the reprogramming of the PBS/IS.
- Require that short synopses of each large or complex lease be prepared and maintained summarizing pertinent lease data, such as termination dates and renewal options and the effect that each supplemental agreement to the lease has had or will have on the lease.
- Require independent verification to original lease documents of all initial lease digests and lease digest updates.

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<sup>2/</sup>General Services Administration, Office of the Inspector General, "The Landow Building Lease Renewal" (T-PBS-L-03-82), July 22, 1982, and "Audit of A Missed Lease Renewal Option Region 9" (4G-20864-09-09), Sept. 16, 1982).

- Require that coding sheets prepared to enter lease data in the PBS/IS and any changes be kept in the lease files.
- Have operating personnel obtain basic data from the lease files when responding to Central Office inquiries and preparing future lease prospectuses.
- Require regional personnel to inform the Leasing Branch of any suspected errors in the PBS/IS.

In addition, the GSA auditors recommended to the Commissioner that the PBS/IS be reprogrammed to provide information which would enable realty specialists to manage separately each block of space included in a lease that has more than one block or unit.

Leasing personnel lack confidence in the reliability of PBS/IS data. The system is not user oriented for it has no direct access capability and it is labor intensive to input data and to verify its output. To compensate for the inefficiencies of the PBS/IS, each regional office visited uses a manual system to either supplement the PBS/IS or to provide an added control for the data already in the system.

#### GSA's lease file update

In response to the audits, PBS officials directed each regional office to review its lease renewals and related information system records and take whatever action may be needed to reduce, to virtually zero, the possibility of missing a renewal option. Each regional office was directed to conduct a 100-percent lease file review to identify and correct ambiguous data in lease documents and to insure information system records are consistent with applicable renewal provisions.

According to PBS officials, the verification of data in the PBS/IS to lease file documents in San Francisco identified three additional missed options (discussed previously on p. 4) and necessitated 109 data corrections to the PBS/IS, of which 9 were potential missed options. Other regional offices also reported errors in their information system data bases, but these would not result in missing any renewal options.

#### Multiunit leases

Multiunit leases were initially intended to improve management by having only one lease cover all blocks of space in a building rather than having multiple leases for the same building. However, efforts to capture multiple expiration dates and varying rights of renewal for the different units of space within one

building complicated lease management. According to PBS officials, it has been their policy since May 1976 that multiunit leases should be avoided.

In October 1982, the Commissioner, PBS, reaffirmed this position by directing each regional office not to enter into future multiunit leases when individual units have unique contract terms, including different expiration dates or renewal terms. PBS officials recognize that the information system, as programmed, cannot accept and process leases with multiple expiration dates and renewal terms. As a result, the system is susceptible to errors and omissions while the probability for missing a renewal option is increased.

In order to provide added controls for existing multiunit leases, the Commissioner, PBS, directed that lease digests be annotated to show renewal option data for all units of space and that a short synopsis, outlining pertinent lease data, be included in each lease file. Further, the Commissioner directed that a manual tracking system be developed for controlling multiunit leases rather than reprogramming the existing system. PBS officials believe that reprogramming is not warranted since there are fewer than 100 multiunit leases in the 11 regions and all renewal data in the system had just been verified. Further, reprogramming would be time consuming and might interfere with an ongoing effort to develop an improved automated tracking system for leasing actions.

#### Followup audit

GSA's Office of the Inspector General conducted a followup audit from September 1982 through March 1983 to determine whether the actions taken by PBS nationwide, in reacting to the missed lease renewal options in the San Francisco and National Capital regional offices, were adequate. GSA auditors selected a limited sample of large complex leases in each region to verify the accuracy of the PBS/IS data to lease documents and to evaluate the procedures used or planned by GSA to control and manage lease renewal dates.

GSA auditors found that all 11 regional offices had made the necessary reviews to reconcile the PBS/IS with individual lease files. However, their limited test of the records indicated that the adequacy of review in the Auburn and Boston regional offices was questionable because the PBS/IS still contained erroneous data regarding lease renewal dates. For example, as a result of the GSA followup audit, Auburn regional office officials conducted another lease file review and found 744 errors, of which 32 affected renewal options. However, no options were missed. In Boston, the GSA auditors found two potential missed options after regional officials performed their lease file review.

The GSA auditors also found that each region had different procedures regarding managing lease renewal dates. The procedures varied because GSA had not adequately responded to prior Inspector General and GAO recommendations that nationwide controls be developed and implemented to control lease renewal dates.

The Office of the Inspector General report on "Review of Controls Over Lease Renewal Dates," dated March 28, 1983, concludes that

"PBS has taken specific action to identify and correct errors involving lease renewal dates and other lease data. Although errors still existed in two regions, additional steps have been taken or are planned that should correct any remaining errors. Further, PBS has issued specific procedures that should reduce greatly any potential problems with multi-unit leases."

Accordingly, the Office of the Inspector General recommended that the Commissioner, PBS

- develop standard procedures for nationwide application for managing and controlling lease data and
- make periodic (annually, as a minimum) reviews of each region to insure that the procedures are fully implemented.

Regarding the standard procedures, the Inspector General recommended that they include

- a periodic reconciliation of PBS/IS data with leasing documents,
- a verification of lease data in the PBS/IS when lease cases are transferred from one realty specialist to another, and
- a restriction on the number of officials who can make changes to lease data in the PBS/IS.

With respect to all multiunit leases containing different lease expiration dates and renewal provisions, the Inspector General recommended that

- they be identified and a manual system be developed to monitor and control key action dates and
- a periodic reconciliation be made between the manual system and official lease documents.

LEASE DISTRIBUTION BY GSA REGIONAL OFFICEAS OF MARCH 1983

<u>GSA region</u>	<u>Total leases</u>		<u>Leases with renewal options</u>	
	<u>Number of leases</u>	<u>Annual rental value</u>	<u>Number of leases</u>	<u>Annual rental value</u>
		(millions)		(millions)
01	199	\$ 18.5	41	\$ 5.9
02	442	56.1	140	28.5
03	433	45.3	112	20.1
04	861	68.6	179	23.8
05	664	47.4	28	9.9
06	234	18.9	16	4.4
07	635	52.8	235	21.1
08	411	30.2	137	14.8
09	654	83.2	125	23.3
10	374	32.5	65	11.9
NCR (note a)	<u>331</u>	<u>245.1</u>	<u>49</u>	<u>37.8</u>
	<u>5,238</u>	<u>\$698.6</u>	<u>1,127</u>	<u>\$201.5</u>

a/National Capital Region.

ANALYSIS OF THE MISSED OPTIONS  
AT 211 MAIN STREET AND DISCUSSION OF  
THE PROBLEM INVOLVING THE LANDOW BUILDING

211 MAIN STREET  
SAN FRANCISCO, CALIFORNIA  
GS-09B-6600

In March 1982, GSA's San Francisco regional office missed an option to renew the lease for a major portion of leased space at 211 Main Street. A GSA Office of the Inspector General report attributes the cause of the missed option, in part, to information system problems, human error, and carelessness. As a result of missing the option, the Inspector General estimates that the Government could pay an additional \$24 million to \$33 million in rent over the 10-year renewal period.

This was the second time in 5 years GSA failed to exercise the option to renew a portion of the lease. In 1977, GSA provided the lessor an untimely notice of intent to exercise the option. However, the lessor accepted the late renewal notice and there was no monetary loss to the Government.

Background

GSA, in 1972, leased space in an office building at 211 Main Street in San Francisco, California. Currently, the lease consists of three separate blocks of space, or units, totaling 337,953 square feet. Following is a summary of information on the three units, including their square footage and expiration dates.

<u>Unit</u>	<u>Type of space</u>	<u>Square feet</u>	<u>Expiration date</u>
1	Office	187,402	March 4, 1983
2	Office	128,290	June 21, 1983
3	Parking	22,261	June 21, 1983

In 1972, GSA initially leased unit 1 for a 5-year firm term, starting in 1973 and expiring on March 4, 1978. Unit 2 was added to the lease on June 22, 1973, for a 10-year term expiring on June 21, 1983. Unofficial regional policy was to show the earliest expiration date in the expiration date block on lease digests when the lease contained more than one unit of space with different expiration dates for the units. However, when unit 2 was added to the lease, the expiration date in the lease digest was erroneously

changed from March 4, 1978, to June 21, 1983. The March 4, 1978, expiration date for unit 1 was shown only in the remarks section of the lease digest. In April 1975, the expiration date for unit 1 was deleted from the remarks section.

In April 1975 and again in January 1976, the lessor, by letter, offered to GSA officials to extend the lease on unit 1 through June 21, 1983, the same date as for unit 2, at the same rental rate and to provide two successive renewal options each for 5 years also at the same rental rate. Apparently the offer to extend the lease was done at GSA's request, since extensive alteration work was required to backfill unit 1 when the Social Security Administration moved from 211 Main Street to Richmond, California. According to a GSA file memorandum, the lessor preferred that the options run concurrently to simplify the bookkeeping and GSA wanted three 5-year options to provide the Government greater flexibility. Nothing was done to modify the lease at that time.

#### Missed option number 1

On March 19, 1976, GSA and the lessor signed a supplemental lease agreement which provided for three successive renewal terms of 5 years each at the same rent for unit 1, provided the Government gave the lessor at least 360 days' advance notice in writing. This agreement also incorporated unit 3. The expiration date for unit 1 remained March 4, 1978. Had the lessor's offer been accepted to extend the lease through June 21, 1983, all three units would have had the same expiration date. The lease file does not show why the lessor's offer was not accepted, and GSA auditors could not determine why.

On May 17, 1976, the lease digest was amended to show these changes but did not include the option data and the March 4, 1978, expiration date for unit 1. To provide adequate notice, GSA would have had to notify the lessor of its intention to exercise the option by March 8, 1977. Because of the inaccurate data in the lease digest, GSA did not notify the lessor of its intention to exercise the renewal option until June 1, 1977, almost 3 months after the required date for giving notice to the lessor. The lessor agreed to waive the 360-day notice requirement and the first 5-year option was subsequently exercised by supplemental lease agreement at the same rental rate for the period March 5, 1978, through March 4, 1983. Although the supplemental lease agreement clearly showed that the expiration date for unit 1 (Mar. 4, 1983) was different from that for units 2 and 3 (June 21, 1983), the amended lease digest was not corrected and continued to show the June 21, 1983, expiration date.

Missed option number 2

The option renewal date was missed primarily because the wrong expiration date was shown in the lease digests and the option renewal date was entered incorrectly in the PBS/IS.

On June 19, 1979, when the first computerized lease digest was prepared, it continued to show the June 21, 1983, expiration date for units 2 and 3 and did not show that the expiration date for unit 1 was March 4, 1983. Also, the data in the renewal blocks showed three asterisks for the "days notice to renew" instead of "360 days" that should have been shown and a "last day to issue renewal" of June 26, 1982. Because the "days notice to renew" did not contain an entry, the lease for 211 Main Street did not show up on the region's "Lease Expiring Next 12 Months" listing until June 1982, after the last date to issue a renewal for unit 1, which should have been March 8, 1982.

On May 10, 1982, leasing personnel discovered that the option had been missed. On June 14, 1982, regional officials, after discussing the alternatives and obtaining an opinion from their General Counsel, advised the lessor verbally as to what had happened and requested a waiver of the notice period. On June 22, 1982, after further discussing the matter with the lessor, the then Leasing Branch Chief sent two letters to the lessor, one requesting a waiver of the notice period for unit 1 and another exercising the option for units 2 and 3. The lessor responded by a letter dated July 13, 1982, to GSA officials denying the request for a waiver on unit 1 and offering to renegotiate the lease terms.

Current status and  
impact on the Government

The GSA auditors estimated the loss to the Government for not renewing the option at between \$24 million and \$33 million.

The \$24 million was based on the estimated current value of the space, \$22 per square foot, which is the rent per square foot of the building next door and the price per square foot (\$9.20) had the option been renewed. It assumes that the Government would retain all 187,402 square feet in unit 1 for the two successive 5-year renewal option periods.

According to the GSA auditors, the agency could lose as much as \$33 million because it could no longer move agencies from three leased buildings into space that would be vacated at 211 Main Street since it can no longer exercise the options.

At the time of our review (Jan. 1983), GSA was negotiating the terms of a possible lease renewal on unit 1; therefore, the loss to the Government due to GSA's failure to exercise the lease option cannot be accurately determined.

#### Personnel turnover

Since the beginning of the lease at 211 Main Street, numerous GSA realty specialists, supervisory realty specialists, and branch chiefs have been involved in administering the lease because of personnel turnover and reassignments. An analysis by GSA auditors shows that nine different individuals signed lease digests on the 211 Main Street lease from March 1973 through June 1982. During this period, the responsibility for signing the 26 lease digests was rotated 16 times. Because of the personnel turnover, the Inspector General recommended that short synopses of each large or complex lease be prepared and maintained summarizing pertinent lease data.

LANDOW BUILDING,  
BETHESDA, MARYLAND  
GS-03B-5114

In June 1982, GSA tried to exercise the first of two 5-year renewal options to continue occupancy of about 115,000 square feet of office space in this building. However, the lessor refused to renew the lease contending that the Government had failed to provide timely notice of its intent to renew as required by the lease terms. A GSA Office of the Inspector General investigation in July 1982 found conflicting references in the lease document pertaining to the number of days notice required to renew the lease. These conflicting dates resulted in the Government issuing its renewal notice after the date stipulated in the lessor's offer but within the time frame in the renewal provision of the lease. The Inspector General estimates that the potential nonrecoverable loss to the Government by not exercising the renewal option will exceed \$7 million over the 10-year renewal option term.

#### Background

In 1972, the Government entered into a lease agreement with Landow and Company to occupy office space beginning November 1, 1972, through October 31, 1982. As part of the lease agreement, the Government had two 5-year renewal options to continue occupancy at the same rental rate as stated in the basic lease. However, the lease agreement contained two

conflicting references as to the number of days notice required to renew the lease. The lessor's offer letter, which the Government accepted and made part of the lease, cites 180 days as the required notice period. The lease also states, on the cover, that only 90 days' notice is required to renew the lease. The Government, holding to the 90-day requirement, provided the lessor its intention to renew 137 days before expiration of the lease. This notice was rejected by the lessor in his contention that 180 days' notice is required. The outcome of this lease renewal is in litigation before the United States District Court.

#### Cause of the problem

The court action, brought by the lessor, challenges the timeliness of the Government's notification to exercise the renewal option. This problem, as mentioned previously, developed because the renewal time stipulated on the cover of the lease (90 days) differs from the renewal time stipulated in the lessor's offer (180 days). Both renewal times were incorporated into the lease contract.

According to the Inspector General's report, when the lease was entered into in 1972, a manual payment document was developed to generate monthly rental payments to the lessor. In doing so, the renewal time of 180 days which was identified in the lessor's offer and incorporated into the lease by attachment was either overlooked or disregarded. Subsequently, when the PBS/IS system was developed and brought on line in 1978, the data from the manual payment document was processed into the computer. This included the data relative to the renewal notice which was the 90 days cited on the cover of the lease. As a result, the alert reports which are generated by the computer and which are used by the realty specialists to exercise renewal documents were consistently reflecting the 90-day notice which had been put into the system years before.

#### Potential dollar loss

The Inspector General's report states that the loss of the renewal options provided for under the lease terms could result in a potential nonrecoverable loss to the Government in excess of \$7 million. Comparable rents in the area are estimated at \$12 to \$15 per square foot, compared with the \$6.67 per square foot rent the Government would pay over the renewal period under the lease terms.

BIBLIOGRAPHY OF GAO REPORTS ISSUED SINCE 1978  
WITH RECOMMENDATIONS CONCERNING  
LEASE MANAGEMENT PROBLEMS

<u>Report</u>	<u>Recommendations</u> <u>(note a)</u>
<p>"More Flexibility Needed by the General Services Administration for Delegating Leasing Authority to Federal Agencies" (LCD-78-303, Jan. 9, 1978)</p>	<p>The Administrator of General Services should:</p> <ul style="list-style-type: none"> <li>--Adopt a more flexible approach on lease delegations which would consider the most economical and efficient acquisition procedure and the best use of GSA's leasing staff.</li> <li>--Assume a more active and supportive role in the monitoring of agency leasing practices and procedures.</li> </ul>
<p>"General Services Administration's Practices in Awarding and Administering Leases Could Be Improved" (LCD-77-354, Jan. 24, 1978)</p>	<p>The Administrator of General Services should:</p> <ul style="list-style-type: none"> <li>--Insure that competition is obtained to the maximum extent practical for both new leases and follow-on leases. This includes improving the planning for probable follow-on leases to allow sufficient time, prior to lease expiration, for developing an alternative space plan.</li> <li>--Insure that the Government receives adequate rent reductions or other compensation when leases are amended to provide for Government assumption of utilities or services costs or when the Government relinquishes leased space for the lessor's convenience.</li> </ul>

ReportRecommendations

"General Services Administration's Practices for Altering Leased Buildings Should Be Improved"  
(LCD-78-338,  
Sept. 14, 1978)

--Require separate metering of non-Government space in Government-leased buildings wherever possible. When separate metering is not feasible, appropriate steps should be taken to assure that the Government receives adequate reimbursement for utilities consumed in non-Government space.

--Insure alteration work is supervised and coordinated properly and alterations are completed by the occupancy date.

--Require periodic inspection of leased buildings to make sure private tenants are not receiving utilities at Government expense.

The Administrator of General Services should:

--Obtain certificates of current cost and pricing data from lessors for negotiated lease alteration contracts over \$100,000.

--Insure that independent cost estimates are prepared and prices negotiated for contracts and change orders before work starts.

--Establish a procedure to insure that consideration is given to renegotiating the rent and lease period prior to contracting for major alterations.

--Require a cost comparison of alternatives--purchasing, construction, or lease--before investing large sums in leased buildings alterations.

Report

"Use of Escalation  
Clauses for Operating  
Costs on All GSA  
Leases" (LCD-78-340,  
Nov. 13, 1978)

Letter report to the  
Administrator of  
General Services on  
missed renewal options  
(LCD-79-301,  
Nov. 17, 1978)

"The General Services  
Administration Has  
Been Lax in Managing  
the Columbia Plaza  
Building Lease"  
(LCD-79-307,  
Apr. 17, 1979)

Recommendations

The Administrator of General Services should direct the Commissioner of the Public Buildings Service to:

--Reconsider the circumstances under which escalation clauses may benefit the Government when negotiating fair and reasonable rental rates, including the possibility of GSA furnishing certain services, the length of lease periods, market conditions, and the size and costs of space requirements.

--Monitor the regions' implementation of escalation clause instructions in order to minimize the effects that result from noncompliance or unallowed deviations from the basic instructions.

The Administrator of General Services should also direct the Regional Administrators to maintain adequate control over escalation clauses included in all leases in order to eliminate the necessity to rely on the memory of the realty specialist or to wait for lessors to initiate escalation procedures.

The Administrator of General Services should require the Central Office, in its periodic leasing reviews, to evaluate the adequacy of controls established by the regions to insure that lease options are considered for renewal.

The Administrator of General Services should:

--Resolve the issue of whether the lessor or the Government is responsible for maintaining the structural integrity of the building.

ReportRecommendations

- Negotiate with the lessor for the deduction from the rent payments of those costs incurred by the Government for repairs and maintenance which were the responsibility of the lessor. The deduction of such costs is authorized by the "failure in performance" clause contained in the lease.
- Require separate metering for utilities in the garage of the building and obtain reimbursement for utilities consumed at Government expense since 1974.
- Determine the amount of net usable square feet available in the building by making a field measurement in accordance with the terms of the lease and, if necessary, adjust the rent payments to conform to the field measurement and negotiate with the lessor for the recovery of any overpayments arising from the rent having been based on more space than was available.

"Firesafety Violations Leased by the General Services Administration" (LCD-79-312, May 22, 1979)

The Administrator of General Services should:

- Required both buildings (those occupied by the Environmental Protection Agency and the Department of Energy) to be inspected promptly to identify all firesafety violations.
- See that all deficiencies are corrected. If the building owners do not promptly correct deficiencies that are their responsibility, the necessary work should be done with Government funds and the cost deducted from rental payments as authorized by the leases.

ReportRecommendations

- Work with the buildings' tenants to promptly establish an appropriate fire-prevention program, including education on proper housekeeping and building evacuation procedures.
  - Remind tenants that all work involving building services and firesafety matters should be coordinated with the Public Buildings Service to protect the Government's interests.
  - Make sure that in future Region 3 leasing negotiations, any deviations from established firesafety criteria are justified, approved, and documented.
- "GSA Can Do More To Ensure Leased Federal Office Space Meets Firesafety Criteria"  
(PLRD-81-8,  
May 1, 1981)
- The Administrator of General Services should require the Commissioner of the Public Buildings Service to:
- Initiate action to have the lessors promptly correct all firesafety deficiencies in leased space for which they are responsible.
  - Enforce the requirement to include the firesafety criteria for GSA leased space in leases and justify any modifications.
  - Clarify and consolidate existing policies and procedures, possibly in a handbook, including how to enforce lease provisions to assure firesafety deficiencies are corrected.
- "GSA's Federal Buildings Fund Fails To Meet Primary Objectives"  
(PLRD-82-18,  
Dec. 11, 1981)
- The Administrator of General Services should:
- Place increased emphasis on correcting the deficiencies in the two automated systems (Federal Buildings Fund Accounting System and the Public Buildings Service Information System) which are used to manage public building operations.

Report

"More Effective Leasing Procedures and Practices Could Help GSA Reduce Delays in Meeting Federal Space Needs"  
(PLRD-82-46, May 10, 1982)

Recommendations

The Administrator of General Services should:

- Improve the level of resources devoted to leasing by reducing the attrition rate for leasing resources as needed.
- Delegate leasing authority on a trial basis for small blocks of space in nonurban areas. Delegations should be monitored by GSA and expanded or terminated based on agency performance.
- Maintain statistics on the volume of agency space requests and disclose in the GSA annual report to the Congress information on GSA's performance in filling space requests and the factors that impede timeliness.
- Issue the Government-wide regulation specifying the policies and procedures which the agencies must follow in acquiring leased space.
- Establish a program for the systematic monitoring of agency compliance with the Government-wide regulation.
- Furnish agencies granted leasing authority with GSA's directives, instructions, and other publications on the scope, applicability, and implementation of Federal leasing policies, regulations, and procedures.

Report

"Use of Escalation  
Clauses in Leases"  
(PLRD-83-8,  
Nov. 1, 1982)

Recommendations

The Administrator of General Services  
should:

- Require contracting officers to ensure that the operating cost bases that are subject to Consumer Price Index escalation are reasonable when leases are negotiated on a sole-source basis.

a/The recommendations identified are those pertaining only to lease management. The reports may contain other recommendations.

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NINETY-SEVENTH CONGRESS  
**Congress of the United States**  
**House of Representatives**  
 GOVERNMENT ACTIVITIES AND TRANSPORTATION  
 SUBCOMMITTEE  
 OF THE  
 COMMITTEE ON GOVERNMENT OPERATIONS  
 RAYBURN HOUSE OFFICE BUILDING, ROOM B-330-A-B  
 WASHINGTON, D.C. 20515

September 16, 1982

The Honorable Charles A. Bowsher  
 Comptroller General of the United States  
 General Accounting Office  
 441 G Street N.W.  
 Washington, D.C. 20548

Dear Mr. Bowsher:

This is to request your assistance in looking into a matter that relates to economy and efficiency of operations in GSA's Public Buildings Service.

The media recently publicized GSA's costly failure, apparently inadvertent, to act to renew a favorable lease option. I refer to the office building at 211 Main Street in San Francisco. The failure is ascribed in part to information system problems.

You have already emphasized information system deficiencies within the Public Buildings Service in two recent reports: "GSA's Federal Buildings Fund Fails to Meet Primary Objectives" (PLRD-82-18; December 11, 1981) and "Better Information Management Could Alleviate Oversight Problems With GSA's Construction Program" (PLRD-82-87; July 9, 1982).

A GSA Region 9 spokesman indicated on national television news this week that there had been other cases of missed renewal options besides the 211 Main Street case. In that connection, we have seen GAO's letter report of November 17, 1978 (B-118623), which cited two Pittsburgh cases where missed options cost the Government \$400,000 and \$22,000, respectively, over 5-year terms. The continuation of such cases suggests that PBS's missed options may need further investigation, especially in the context of GSA's information resources management.

I therefore ask that GAO investigate this matter and report the results to the subcommittee by January 3, 1983. The report should include the following:

(more)

Mr. Charles Bowsher  
September 16, 1982  
Page Two

- (1)(a) Identification of lease options which GSA has missed during the past four years. We suggest this be limited to cases involving a gross rent of \$10,000 a year or more.
  - (b) The actual or estimated losses to the Government in resultant higher rents (and relocation costs, if available).
  - (c) Type of information management system used or not used in each case.
  - (d) Brief statement of probable reason for each missed option.
- (2) Using a number of representative cases, a more detailed analysis, including discussion of related ADP hardware, software, systems, and also personnel issues such as numbers, skills and experience, and employee turnover.
  - (3) Adequacy of current measures GSA may be taking to avoid recurrence of this type of failure; and a bibliography of past GAO reports and recommendations relating to GSA lease management problems.
  - (4) Recommendations for agency and Congressional action.

We are apprising the Administrator of General Services of this request so that there may be appropriate coordination between work on this request and any related work GSA may be undertaking. A copy of our letter to him, dated today is enclosed.

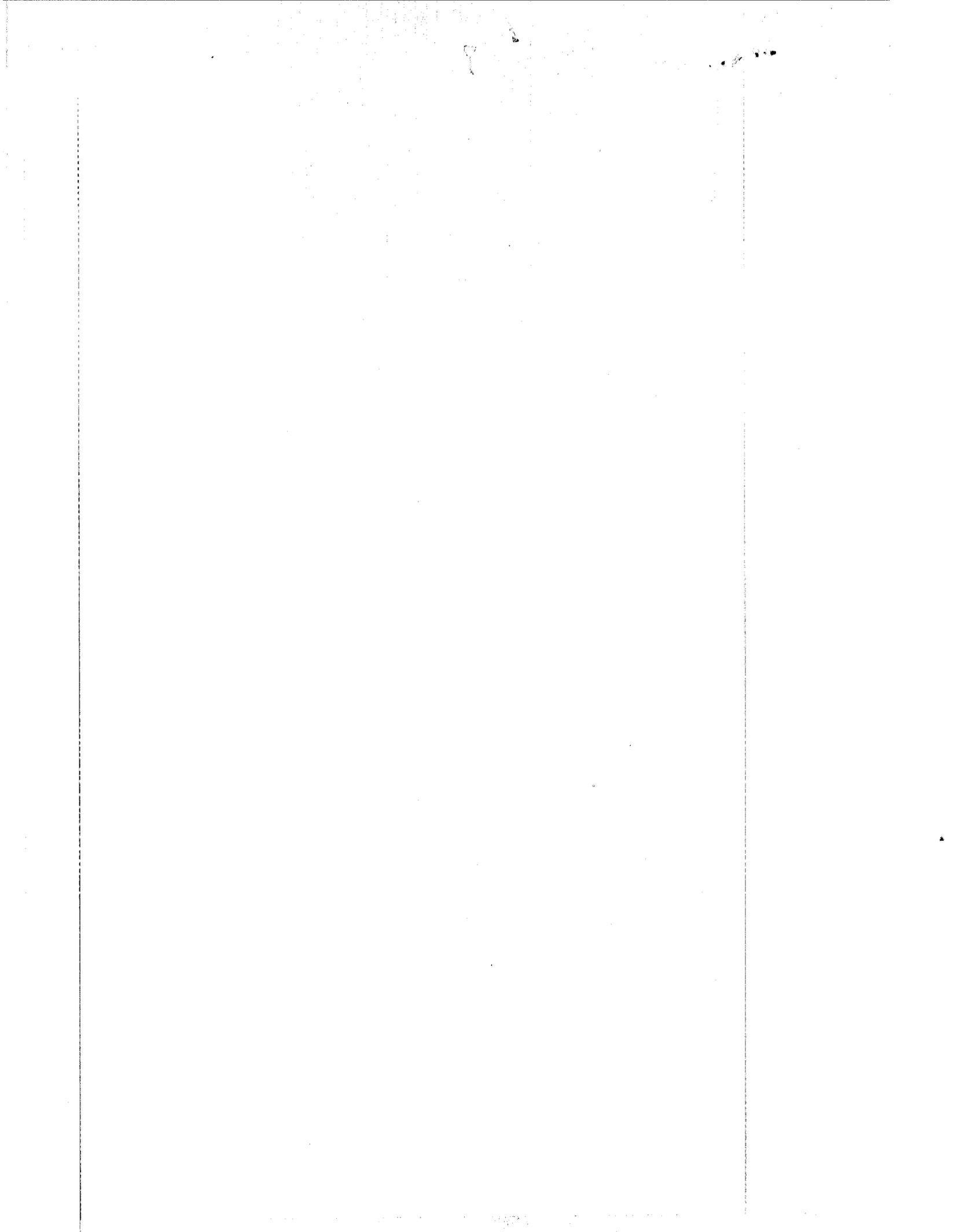
However, in accord with general committee policy, I ask that the report be submitted to the subcommittee prior to solicitation of any agency comments and that release of the report be withheld until 30 days after submission to us.

If there are questions concerning this request, please get in touch with the subcommittee office (Mr. Caney or Mr. Romney, 225-7920).

Sincerely,

  
JOHN L. BURTON  
Chairman

JLB:MQR:cm  
Enclosure



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